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UNITED STATES DEPARTMENT OF AGRICULTURE
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NEEDED GOVERNMENT PROGRAMS IN MARKETING

Address by Frederick V. Waugh, Office of War Mobilization and Reconversion, at the 23rd Annual Agricultural Outlook Conference, Washington, D. C. December 4, 1945

For at least 2 years, and probably longer, the agricultural program will be dominated by commitments to support farm income and the prices of agricultural products.

This fact will have a decisive bearing on the programs of all public agencies dealing with agricultural production and with the marketing of foods and fibers. I shall not discuss production programs, but I shall try to indicate how the price-support commitments may affect Government programs in marketing.

Before the war most Government work in agricultural marketing could be classified as research, education, regulatory, or services. Essentially these programs were designed to make the existing marketing system operate as smoothly as possible. They accomplished a great deal. Obviously we must continue and strengthen these efforts. But we shall have to expand our marketing activities, and change their emphasis to make them contribute fully to the price-supporting programs.

You all know that agricultural production was increased about 30 percent during the war. You know, too, that Congress has directed the Department of Agriculture to support the prices of most important farm products at 90 percent of parity or higher for at least the next 2 or 3 years. Moreover, you doubtless have heard that efforts are being made both to extend the price-support period and to raise parities. I shall assume here that the Government is committed to support prices for several years at levels at least as high as the 1910-14 parities as now computed. I shall try to indicate how this commitment will affect our marketing programs.

As long as we enjoy the present very strong demand for farm products in the domestic and foreign markets, it may not be necessary for public agencies to participate very actively in the marketing process. But I don't need to remind this particular audience that we still have not repealed the law of supply and demand. We may be able to set prices at 90 percent of parity, 100 percent of parity, or even 150 percent of parity, but if prices are supported at levels higher than the natural competitive level we shall again be confronted with the problem of agricultural surpluses.

Three kinds of programs may be necessary to carry out commitments to support farm income, or the prices of agricultural products. These are: (1) programs to reduce supplies, (2) programs to maintain demand, and (3) programs to reduce marketing costs.

Supply

Adjustment of supply is not simply and entirely a farm management problem. There will be an obvious need for some readjustments on farms. However, the experience of the last 15 years demonstrates that it would be extremely difficult, if not impossible, to bring about a general reduction in agricultural output and to maintain, year after year, an exact adjustment in farm production, calculated in such a way that the market can absorb the output at predetermined support levels.

The adjustment of supplies will require marketing programs as well as production programs. We shall need to adjust the flow of supplies moving to markets. This may mean some marketing quotas and penalty taxes. It probably will mean also more emphasis upon marketing agreements through which growers and cooperative associations can regulate shipments in order to avoid surpluses.

We shall doubtless have to be prepared to go further than this. Government agencies will have to be prepared to deal directly with surpluses. Even with the present strong demand conditions, we have had recent difficulties with surplus potatoes and are worrying about a surplus of eggs in the near future. If and when such so-called surpluses develop, we shall need some form of diversion program. Potatoes have been diverted into starch, alcohol, glucose, and animal feed. Some have been diverted to Belgium and Canada. Such programs may offer only temporary relief, and they may encourage non-economic uses. Nevertheless, we shall have to be ready to carry out diversion programs in the future for many agricultural products.

We must also be prepared to carry out a storage program. Ideally, this should be an "ever-normal granary" operation, designed to even out supplies and to prevent fluctuations in prices. We should avoid, as far as we can, the temptation to support prices by diverting large surpluses into storage every year and building up excessive stocks. Yet we must always stand ready to handle surpluses, and if we have no good outlets for them we probably must be prepared to divert them to storage. Certainly we should not tolerate any large-scale destruction nor outright waste and spoilage of food that is needed.

Let it be clear that I am not advocating these programs to control market supplies nor to divert surpluses from the regular markets. I would definitely prefer programs to maintain demand. But if it is necessary to adjust supplies of some commodities we shall need not only a farm-management program, but also programs dealing with the marketing, distribution, and storage of farm products and food.

Demand

Let us look at the second alternative -- that of maintaining demand. This is certainly a job for the marketing expert. Instead of reducing production, why don't we develop market outlets for whatever the farmer wants to produce?

Probably we can do a great deal in this direction. Personally, I feel that every effort should be made to carry out price-support commitments by maintaining demand, rather than by reducing supply.

We shall need much greater emphasis on an educational program to reach city consumers. Our extension work in marketing has been limited primarily to work with farmers. We need to really extend the extension program. We need to work with processors, distributors, retailers, and consumers, and we need to give special attention to the problem of maintaining a high and stable rate of consumption of food and fiber.

Foreign markets for agricultural products are extremely important. We must make every effort to maintain foreign outlets for cotton, wheat, tobacco, lard, dried fruit, and many other farm products. Probably this is not the place to discuss foreign-trade policy in any detail, but it is obvious that the Government must take an active hand in this problem. Aside from the temporary foreign food-relief program, there appear to be at least four possible methods of developing and maintaining export outlets: (1) general economic measures to raise living standards throughout the world, (2) reduction or elimination of trade barriers, (3) making loans or subsidies, and (4) cooperative arrangements with other countries to distribute world surpluses. The new Food and Agriculture Organization doubtless will play an important part in developing international policies in this important field of agricultural marketing.

We shall need a more active and comprehensive nutrition program to reach undernourished groups in this country. Such a program includes not only research and developmental work on such problems as industrial feeding. It also includes measures to make more and better food available to such groups as school children and low-income families.

The School Lunch Program is now reaching about a third of the school children in the United States. If it were extended to all school children it would not only make a great contribution toward better nutrition, but it would also provide very useful outlets for farm products. I am not suggesting here that the School Lunch Program be used as a dumping ground for surpluses, regardless of nutritional value. I would certainly deny that the School Lunch Program has ever been misused in this way; but a good, comprehensive School Lunch Program can provide a large and steady outlet for a number of important protective foods such as milk, fruits and vegetables, eggs, and meats.

Food-consumption surveys have demonstrated beyond any question that family income is one of the most important factors determining the quantity and kind of food consumed. Low-income families are not able to buy adequate diets. In times of unemployment and low income this greatly limits the market for agricultural products. The best solution, of course, is full employment at good wages. But until this is accomplished we must be prepared to maintain full consumption of food, both to protect diets and health and to provide full markets for agriculture.

This might be done by reviving the prewar Food Stamp Plan or by some form of Food Allotment Program along the general lines of bills now before Congress. For the present such a program could be rather small, but it should be kept flexible and we should be prepared to expand it quickly whenever employment falls off. Such a program, together with a more comprehensive school-lunch program, could go very far toward maintaining stable outlets for farm products at good prices year after year. It is true that such a program would cost a good deal of money in a period of depression -- perhaps

as much as 2 billion dollars a year. Yet it seems perfectly clear that any method of supporting farm prices or farm income in a period of depression will be expensive.

Marketing Costs

Reducing the costs of marketing and distribution is another general approach to this problem of maintaining farm income and agricultural prices. State and Federal agencies for years have been pointing out inefficiencies in marketing and distribution and indicating some of the savings that might be made. Yet we have never had a really active Government program to reduce marketing costs. Some people are even inclined to doubt whether the agricultural colleges and the Department of Agriculture have responsibilities in this field. My own conviction is that State and Federal agencies must put a great deal more emphasis on marketing and distribution in the reconstruction period and that their efforts must not be limited to work at or near the farm level. They must be prepared to deal with problems of processing, transportation, storage, and city distribution. We need a food program fully as much as an agricultural program.

Such a food program, including the improvement of city food distribution, is of real concern to farmers, as well as to consumers. I strongly urge all of you to read the recent publication prepared by the Bureau of Agricultural Economics summarizing the costs of marketing and distribution from 1913 to 1944. ^{1/} I call your attention especially to a few figures. During the 5 years from 1935 to 1939 consumers spent an average of 14.2 billion dollars a year for foods produced by American farmers. The cost of processing, marketing and distributing this food came to an average of 8.5 billion dollars, leaving the farmer a cash income of 5.7 billion dollars. (Note that this is not total cash farm income, but is an estimate of the income received for the food products going to consumers in this country).

One way of getting more income to the farmers is by reducing marketing costs. If in the 5 years from 1935 to 1939 the marketing bill could have been reduced from 8.5 billion dollars to 7.5 billion dollars, for example, the saving of a billion dollars would have gone, mainly at least, to the farmers. It is a well-documented fact that consumer expenditures for food are determined fairly exactly by the income the consumers have to spend. Farm income is equal to consumer expenditure minus marketing costs. Savings in marketing costs go mainly to farmers as increased income.

Further research and education can be very helpful in suggesting ways of reducing marketing costs. Encouragement of farmers' cooperatives can also contribute a good deal to the solution of this problem. However, Government agencies must be prepared to go further than this if we are to accomplish large savings in food marketing.

We must recognize that the State and Federal Governments have never followed a consistent policy of encouraging efficient marketing and distribution. In fact, we have done many things to discourage reductions in marketing costs. We should remember the wave of interstate trade barrier

^{1/} Miscellaneous Publication No. 576, "Price Spreads between Farmers and Consumers -- Food Products." U. S. Dept. of Agr., September 1945.

legislation that swept this country after the first World War. We should remember also that chainstore taxes, resale price-maintenance laws, and similar legislation was passed, partly at least, as a means of discouraging reductions in the cost of marketing. If we really mean business and want marketing efficiency, we should start in by repealing some of our present marketing legislation, and we should carefully avoid in the future any laws or regulations that may hinder the development of new and more efficient methods of marketing and distribution.

Doubtless we should go further than this and develop new laws and regulations to eliminate all kinds of racketeering and feather-bedding in the marketing system.

But this problem obviously is not solely one of regulation and policing. If we are to make real progress in developing and promoting efficient methods of marketing, we shall need to find some mechanism through which the Government can cooperate with food industries to carry out programs aimed at reducing costs of marketing and distribution. In the past we have not made much progress in this direction. We have rightfully been suspicious of any cooperation among industry groups that might lead to conspiracies to defraud the farmers or the consuming public. Yet if we are to get big gains in efficiency we must allow the economies inherent in mass production and large-scale distribution; and we must encourage some form of industry cooperation aimed at eliminating undesirable overlapping and duplication, and at the adoption of new and improved methods.

Many examples could be given of possible savings in the marketing of food through Industry-Government cooperation. The University of Connecticut has recently published a remarkable series of bulletins showing the possibility of savings in the distribution of milk in that State. For example, these studies show that the present system of milk delivery in major markets involves a daily travel of 25,710 miles if milk is delivered every day. Every-other-day delivery cuts this to 16,210 miles. The studies show, however, that if milk delivery were zoned into exclusive areas the travel could be cut to 3,420 miles on an every-day basis, or to 2,360 miles on an every-other-day basis. Similar studies have shown the possibility of important savings through the reorganization of milk-collection routes in the country.

You are all aware of similar studies made in other States for other commodities. They have shown a great deal of overlapping and duplication as well as the existence of obsolete plant equipment in many industries, such as cotton gins, grain elevators, and creameries. They have pointed out the savings that would result if these industries could be reorganized on an efficient basis.

In recent years we have come to realize that there are great inefficiencies in city terminal markets for perishables such as fruits and vegetables, poultry, and eggs. Most of you probably know the results of studies made by W. C. Crow and others in the Department of Agriculture in the years immediately preceding the war. It seems clear that many of these terminals are very inefficient and that improvements are certainly needed. A good modern food terminal in New York City could pay for itself in 15 years, and at the same time it would make possible important savings that would benefit not only the consumers in New York City but also producers in every State of the Union.

Many more examples could be given. Hundreds of bulletins could be quoted. But it is not enough to write bulletins. We already know how to market farm products and foods more efficiently. How can we actually bring about the indicated changes?

It can be done only by active cooperation between the Government and industry groups. This cooperation will have to go much further than that under any of the present marketing agreements. The marketing agreements and orders on milk, fruits, and vegetables, involve cooperation between the Government and industry in fixing prices and in regulating shipments to market. So far, they have done very little to bring about economies in marketing.

In fact, present legislation gives the Department of Agriculture very little authority to improve marketing.

I suggest that we shall need either a new, and broader, marketing agreement act, or we shall need other legislation to provide Government-Industry cooperation to improve marketing. It is an interesting fact that several States have recently provided for "Market Authorities" with funds and responsibilities for providing improved market facilities, and for regulating their use in the public interest.

There are dangers in any program aimed at getting efficient marketing through Government-Industry cooperation. Maximum economies might mean the development of gigantic corporations, and the decline of small businesses; it might mean a great deal of Government regulation; it might restrict entry of new firms in the marketing system; it might stifle progress through the establishment of fixed charges, rates and methods.

I fully grant these dangers. They are real. But is there no middle ground? Must we accept either the alternative of inefficiencies as the price of unrestricted competition, or the alternative of monopoly and excessive Government regulation as the price of cooperation?

If so, I for one, would vote for competition. But I believe there is a middle ground. I believe we are intelligent enough to find some way of cooperating with industry groups without destroying desirable forms of competition and without sacrificing the interests of farmers, dealers, or consumers. If this can be done we shall have gone a long way toward making possible full production in agriculture, full consumption in cities, and fair income to farmers.